

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **SB 95** SLS 17RS 324

Bill Text Version: **ENGROSSED**

Opp. Chamb. Action: **w/ HSE COMM AMD**

Proposed Amd.:

Sub. Bill For.:

Date: June 1, 2017	10:21 AM	Author: MORRISH
Dept./Agy.: Revenue		Analyst: Jodi Mauroner
Subject: Rebates to School Tuition Donation Organizations		

TAX EXEMPTIONS EG1 INCREASE GF RV See Note Page 1 of 2
Changes the rebate for donations to certain school tuition organizations to a nonrefundable income tax credit. (gov sig)

Current law authorizes a rebate for donations made to a school tuition donation organization (STO) which must be used to provide scholarships to qualified students at participating schools. The amount of the rebate is equal to the amount of the donation used to fund a scholarship, excluding administrative costs, which shall not exceed 5% of the donation amount.

Proposed law replaces the rebate with a non-refundable tax credit. Further specifies that in order to qualify for the credit, the taxpayer must be required to file a Louisiana income tax return. Provides for use in addition to federal taxes but prohibits the receipt of any other state tax credit, exemption, exclusion or deduction; provides for a three year carry-forward for credits which can't be used in the year earned. Requires STO to pay out or reseve at least 75% of donations for scholarships; any donated funds exceeding 25% available from prior year donations shall be remitted to the LDE for deposit into the state general fund. Effective for donations made on or after January 1, 2018.

EXPENDITURES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	SEE BELOW	SEE BELOW	SEE BELOW	SEE BELOW	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0					\$0

REVENUES	2017-18	2018-19	2019-20	2020-21	2021-22	5 -YEAR TOTAL
State Gen. Fd.	\$0	INCREASE	INCREASE	INCREASE	INCREASE	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0					\$0

EXPENDITURE EXPLANATION

There will be an indeterminable impact to the state Minimum Foundation Program funding formula (MFP) to the extent student participation in the STO is impacted by the proposed conversion from a rebate to a nonrefundable credit. While some scholarship awards will be less than what would have been paid for that student through the MFP, it is unknown whether all students in the STO would previously enroll in a public school and what the MFP allocation would have been for those students. Further, scholarship amounts are based on a weighted per pupil amount, which would not necessarily apply to each of those students if they were funded through the MFP. The Department of Education estimates a savings of \$900,000 for the current school year based on a comparison of the average MFP to the average STO scholarship, however it did not provide information on actual enrollment by district to document this calculation. Ultimately any net increase or decrease will depend upon the tuition of individual students at the STO school the student may attend and the actual per pupil amount that would otherwise have been provided through the MFP.

REVENUE EXPLANATION

There may be a reduction in the amount of taxpayer donations charged against gross state tax collections (most likely personal and corporate income tax). Thus, net collections for deposit into the state treasury may increase.

Donations and scholarship awards under the STO program began with the 2013-2014 school year with a total of \$61,000 in donations rebated. Participating organizations are required to submit annual reports on January 1 of each year. Based on information submitted by the three participating STOs, rebate eligible donation amounts for the past three years totaled \$6.6 M and scholarships awarded for school years totaled \$3.4 M. Donation data for the 2016-2017 school year will not be available until the January 2018 report, however based on initial enrollment as reported by the Department of Education \$7 M in scholarships have been awarded for the current school year. Total exposure to the state for the four period is \$10.5 M.

Proposed legislation converts the rebate of donations to a non-refundable tax credit for taxpayers who are required to file a Louisiana tax return. These proposed changes may reduce the number of students financed through the STOs and slow the growth of the program, and is likely to reduce the amount charged against the state fisc in any one year from what would otherwise be the case as a rebate.

- Senate Dual Referral Rules
- 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}
- 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

- House
- 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
- 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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CONTINUED EXPLANATION from page one:

Revenue Explanation Continued

It is unknown whether donors will continue to make donations under the proposed changes to the state benefit, and/or whether the number of donors will increase sufficiently to offset any potential reduction in donation amounts. Converting the rebate to a tax credit for residents required to file returns may reduce the extent of the state's exposure. Currently, some donors are out of state organizations, non-profits, and non-secular organizations which may not be required to file returns under state law, or which do not pay state taxes. Under proposed legislation these organizations would not be eligible to claim the credit. Furthermore, if a taxpayer does not have sufficient tax liability to allow for the full credit amount, the proposed bill provides a three year carry forward provision to provide the opportunity for the donor to take advantage of the full credit amount.

Additionally, while the donation may still be used as a deduction on federal income tax filings, the credit may not be used in conjunction with any other state credit, exemption, exclusion, or deduction. In addition to the state rebate, a 2011 memo issued by the Office of the Chief Counsel of the Internal Revenue Service determined that notwithstanding the state benefit amounts, individuals and businesses may claim these donations as charitable contributions on their federal income tax returns. This added tax benefit could still encourage individuals and businesses to make donations to this program despite the reduced state benefit.

Finally, the bill requires STOs to annually pay out or reserve for scholarships at least 75% of all donations. Any donated funds retained by a STO as of July 1 each year that exceeds 25% of all funds available from prior year donations shall be remitted to the Department of Education for deposit into the state general fund.

Credits are claimed the year following the school year in which scholarships are awarded. Donations made subsequent to July 1, 2017 for the 2017-2018 school year cannot be claimed until FY 19 and thereafter. Proposed legislation will continue to allow for donations to be rebated for the remainder of this calendar year (through 12/30/17).

Senate

Dual Referral Rules

13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}

13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}

House

6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}

6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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